

**CITY OF PAULLINA  
INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES  
FOR THE PERIOD  
JULY 1, 2015 THROUGH JUNE 30, 2016**

## Table of Contents

	<u>Page</u>
Officials	3
Independent Accountants' Report on Applying Agreed Upon-Procedures	4-6
Detailed Recommendations:	<u>Finding</u>
City Council Minutes	A 7
Segregation of Duties	B 7
Certified Budget	C 8
Business Transactions	D 8
Financial Condition	E 8
Separately Maintained Records	F 8
Electronic Check Retention	G 8

## CITY OF PAULLINA

### OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Justin Stamer	Mayor	December 2018
Charles Harper	Council Member	January 2020
John Ihle	Council Member	January 2017
Jay Jones	Council Member	January 2018
Dan Schreck	Council Member	January 2018
Dennis Werkmeister	Council Member	January 2020
Sandy Fritz	Clerk/Administrator	Indefinite
Johnene Altman	Treasurer	Indefinite
Tisha Halverson	Attorney	Indefinite

### **Independent Accountants' Report on Applying Agreed-Up Procedures**

To the Honorable Mayor  
and Members of City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities and agreed to by the City Council of the City of Paullina, Iowa. These procedures were solely to assist you with respect to the accounting records and administrative requirements of the City of Paullina, Iowa for the year ended June 30, 2016. The City of Paullina's management is responsible for the City's accounting and administrative records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specific in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and findings are summarized as follows:

1. We reviewed four City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa. We noted that the June 6, 2016 council meeting minutes were not published or posted within fifteen days following the meeting. See the detailed recommendations for additional information.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee. We noted there was an overall lack of adequate segregation of duties. See the detailed recommendations for additional information.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa. The surety bond coverage complied with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected two months of bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council. The months of September 2015 and April 2016 were properly reconciled and agreed to the general ledger and financial reports.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for. No exceptions were noted.

6. We reviewed the City's fiscal year 2015 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information. The 2015 AFR was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa. All investments complied with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa. All items complied with the previous mentioned chapters of the Code of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for. All proceeds and repayments were appropriately accounted for.
10. We reviewed the tax increment financing (TIF) transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa. All transfers met the reporting requirements and were accurately accounted for.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa. No exceptions noted.
12. We reviewed and tested one month of receipts for accurate accounting and consistency with the CFC recommended chart of accounts. No exceptions noted.
13. We reviewed and tested 30 disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa. All disbursements tested were properly approved, supported, and accurately accounted for.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting. No exceptions noted.
15. We reviewed and tested five payroll and related transactions for propriety, proper authorization and accurate accounting. No exceptions noted.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment. See the detailed recommendations for information on exception that was noted.

We were not engaged to and did not conduct an audit of the City of Paullina, the objective of which is the expression of opinions on the City's accounting and administrative records. Accordingly, we do not express such an opinion. Had we performed additional procedures, or had we performed an audit of the City of Paullina, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Paullina and other parties to whom the City of Paullina may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Paullina during the course of our examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Le Mars, Iowa  
August 15, 2016

*William & Lyming, P.C.*  
Certified Public Accountants

**CITY OF PAULLINA  
DETAILED RECOMMENDATIONS  
FOR THE PERIOD JULY 1, 2015 THROUGH JUNE 30, 2016**

- (A) City Council Minutes – The City Council meeting minutes for June 6, 2016 were not published within 15 days as per Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 372 of the Code of Iowa.

- (B) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, the same individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparation and distribution.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing.

Criteria – The City is responsible for the establishment of adequate segregation of duties to help prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the City's financial statements.

Condition – The City has a small staff and accordingly has not been able to achieve full segregation of duties over all accounting transactions. Employees who handle cash receipts are also involved with the preparation of bank reconciliations and the posting of payments.

Effect – As a result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period. Internal controls that are in place could be averted, overridden, or not consistently implemented.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

- (C) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

**CITY OF PAULLINA  
DETAILED RECOMMENDATIONS  
FOR THE PERIOD JULY 1, 2015 THROUGH JUNE 30, 2016**

- (D) Business Transactions -- Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Justin Stammer, Mayor, owner of Mill Creek Machining	Materials/Repairs	\$ 163
John Ihle, Council Member owner of CompuWiz Graphic Solutions	Web Site Maintenance	\$ 832

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

- (E) Financial Condition -- At June 30, 2016, the City had a deficit balance in the West Lot Capital Improvement Fund.

Recommendation -- The City will investigate alternatives to eliminate the deficit to return the fund to sound financial position.

- (F) Separately Maintained Records -- The Fire Department and the Library maintain bank accounts separate from the City Clerk's accounting records. The transactions and resulting balances for these bank accounts are not included in the City's accounting records.

Recommendation -- Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- (G) Electronic Check Retention -- Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for its bank accounts. However, such images are available from the bank.

Recommendation -- The City should obtain and retain images of both the front and back of cancelled check as required by Chapter 554D.114 of the Code of Iowa.